DOCUMENT RESUME

ED 452 793 HE 034 014

TITLE	Holdback of HEFCE Grant, 2001-02. Report.
INSTITUTION	Higher Education Funding Council for England, Bristol.
REPORT NO	HEFCE-01/33
PUB DATE	2001-05-00
NOTE	12p.
AVAILABLE FROM	Higher Education Funding Council for England, Northavon House, Coldharbour Lane, Bristol, BS16 1QD. Tel: 0117-931-7317; Fax: 0117-931-7203; Web site: www.hefce.ac.uk.
PUB TYPE	Reports - Descriptive (141)
EDRS PRICE	EDRS Price MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	Educational Finance; *Enrollment; *Financial Support; Foreign Countries; Higher Education; Resource Allocation; *Student Recruitment
IDENTIFIERS	*England

ABSTRACT

The Higher Education Funding Council for England has a funding agreement with each institution that it funds that specifies the targets relating to student numbers that the Funding Council expects the institution to meet. This document explains the action the Council will take if institutions do not meet their targets for 2001-2002. The constraints on recruitment within the funding agreements are outlined. To achieve the student number objectives, the Higher Education Funding Council will withhold grants from an institution that: (1) is found to have a level of assumed resource above its contract range; (2) recruits more than a permitted margin above its maximum student number; (3) does not deliver the expected growth arising from a bid for additional funded places; or (4) under-recruits against its contract full-time equivalent for medicine and dentistry. (SLD)

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ED 452 793

May 01/33 Report

Holdback of HEFCE grant 2001-02

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Holdback of HEFCE grant 2001-02

To	Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education colleges Heads of universities in Northern Ireland
Of interest to those responsible for	Finance; Student data; Planning
Reference	01/33
Publication date	May 2001
Enquiries to	HEFCE higher education advisers

Executive summary

Purpose

1. We have a funding agreement with each institution that we fund, which specifies the targets relating to student numbers that we expect it to meet. This document explains what action we will take if institutions do not meet their targets for 2001-02.

Key points

2. There are five constraints on recruitment within the funding agreements, as they will apply for 2001-02, although not all apply to every institution. They are:

a. The contract range. Under our funding method for teaching, we calculate a standard level of resource for each institution, and an assumed resource (actual HEFCE teaching grant plus an estimate of income from fees). The percentage difference between assumed and standard resource for the academic year 2001-02 must be within a given range – known as the contract range.

b. The maximum student number (MaSN). This is an upper limit for the student numbers on full-time undergraduate courses, other than those fundable by the NHS, plus any other students on initial teacher training courses.

c. Funding conditional upon delivery of growth. This only applies to institutions that are expected to increase student numbers in 2001-02 as a result of a successful bid for additional funded places. Funding for those places is contingent upon institutions actually recruiting students to fill the places.

d. The foundation and sub-degree target. This only applies to institutions that have been funded for additional places on foundation degrees or courses below degree level for 2001-02. Its purpose is to ensure sufficient increases in total student numbers on such courses, as planned by the Government.

e. The contract full-time equivalent (CFTE) number for students on undergraduate medical and dental courses to which a quota applies, setting minimum numbers.

3. These measures are designed:

a. To ensure that public expenditure on higher education remains within the overall spending limits set by the Government each year.

b. To maintain broadly comparable resource levels per student so that the quality of the student experience is not put at risk.

c. To ensure that funds allocated for expansion do indeed deliver additional places and, within that, to encourage the expansion of higher education below degree level.

d. To ensure that the intended number of medical and dental students required to meet national needs is delivered in return for the exceptionally high level of funding provided for such students.

4. To achieve these objectives we will withhold grant from an institution which:

a. Is found to have a level of assumed resource above its contract range.

b. Recruits more than a permitted margin above its MaSN. For 2001-02, that margin is 4 per cent.

c. Does not deliver the growth expected in 2001-02 arising from a bid for additional funded places.

d. Under-recruits against its CFTEs for medicine and dentistry.

5. Where an institution is found to be below its contract range, we will want to discuss the reasons with the institution, and to receive an action plan setting out how the institution will ensure it comes within the range in 2002-03. We expect that institutions will then take the necessary action to bring numbers into line with their targets.

6. In relation to paragraphs 4 and 5, before taking any action, we will give institutions an opportunity to tell us about any material changes in definitions or mitigating factors.

Action required

7. No response is required.

Background: the funding agreement

8. We expect each institution to provide a certain level of teaching activity in return for our funding. Each July we issue a funding agreement, which specifies certain targets that we expect the institution to meet in the coming academic year. These targets set overall controls on its student numbers.

9. There are up to five separate targets specified in the funding agreement, which will apply in 2001-02, although not all apply to every institution. These are shown in Table 1.

10. If an institution does not meet one or more of its targets, we may withhold some of its grant. This is known as holdback.

11. Institutions should read this publication alongside their funding agreement. Draft versions of these agreements (separately for higher and further education institutions) are available on our web-site (at www.hefce.ac.uk under 'Finance'). The final agreement for 2001-02 will be issued in the normal way in July 2001. The funding agreement explains how we monitor whether institutions are meeting these targets, and the students who may count towards them. Individual students may count towards more than one target and this means that there is an interaction between the different targets. To take account of this interaction, we will monitor against the targets in the following order:

(i) MaSN

(ii) funding conditional upon delivery of growth

(iii) medical and dental CFTE

(iv) contract range

(v) sub-degree target.

12. Where appropriate we will take account of adjustments to funding arising from institutions' recruitment against one target before we make further adjustments because of their recruitment against a subsequent target.

The MaSN

13. The Government requires us to control the numbers of full-time undergraduates and initial teacher training students that institutions may recruit. This is because those students may qualify for student support, and the number of qualifying students has to be managed in order to maintain

Table 1 **Targets for student recruitment**

Target	Applies to:
Contract range	All higher and further education institutions directly funded by the HEFCE
Maximum student number (MaSN)	All higher and further education institutions directly funded by the HEFCE
Funding conditional upon delivery of growth	Only those higher and further education institutions that are expected to increase student numbers in 2001-02 as a result of a successful bid for additional places
Foundation and sub-degree target	Only those higher and further education institutions funded for additional places on foundation degrees or courses below degree level for 2001-02
Medical and dental contract full-time equivalent (CFTE)	Only those higher education institutions with medical or dental schools

budget control. We therefore set each institution a MaSN, plus a small additional margin up to which they may recruit. The MaSN covers:

a. All home and EC full-time and sandwich undergraduate students, except those on courses for which an NHS bursary may be payable.

b. All home and EC students on courses of initial teacher training.

c. All home and EC full-time students on a postgraduate course for which government support is available at undergraduate rates, such as students undertaking courses leading successively to Parts 1 and 2 of the Royal Institute of British Architects examination.

14. Recruitment above the MaSN plus margin will result in holdback in 2001-02, unless the institution provides evidence that the excess is wholly attributable to students who are funded from public sources other than the HEFCE, the NHS or the Teacher Training Agency (TTA). The reduction in grant in 2001-02 will be based on the tuition fee income attributable to the excess numbers, at a rate of £1,075 for each full-time student and £530 for each sandwich year-out or part-time student. The holdback will not be consolidated into institutions' baseline funding for 2002-03.

15. We will not apply a financial penalty solely because an institution recruits below its MaSN in 2001-02, although this may be taken into account when determining future MaSN allocations. Under-recruitment could lead to holdback, if it results in an institution not meeting other funding agreement targets.

16. For 2000-01, we raised the MaSN margin from 2 per cent to 4 per cent, to allow institutions more flexibility in recruitment. The margin will remain at 4 per cent for 2001-02. We are reviewing the longer-term need for the MaSN control, and the size of any margin, and we will announce conclusions in due course.

Funding conditional upon delivery of growth

17. We have invited bids for additional places in the publications HEFCE 98/56, HEFCE 99/56 and HEFCE 00/39. Where we have awarded additional places through these bidding exercises, we expect institutions to deliver corresponding growth in their overall student numbers. If they do not, they will be liable to holdback. Growth in individual programmes offset by reductions in recruitment to other programmes is not sufficient: the growth must be additional to the institution's previous total student numbers.

18. We give institutions two opportunities to deliver the growth arising from their successful bids for additional student numbers:

a. Institutions awarded additional funded places for 2000-01 will already have had some of their bid funding held back if they did not deliver sufficient overall growth in that year. That holdback of grant will have been consolidated into the baseline funding that rolls forward into the allocations for 2001-02. Institutions can recover the funding deducted in 2001-02, if they make good the previous year's shortfall in recruitment.

b. Institutions awarded additional funded places for 2001-02 will have holdback if they do not deliver the overall growth arising from their bids. This holdback of grant will be consolidated into the baseline funding level that rolls forward into the allocations for 2002-03. Institutions will be able to recover the funding deducted in 2002-03, if they make good the previous year's shortfall in recruitment.

19. In assessing whether institutions have delivered the growth expected from their bids, we count any growth achieved firstly against the places awarded for the previous year – that is, growth delivered at the second opportunity. Any remaining growth is then counted towards delivery, at the first attempt, of any new additional places awarded for the current year.

20. The funding agreement specifies a baseline FTE figure and two FTE targets for institutions that are expected to deliver growth in 2001-02.

a. Unless institutions reach the baseline FTE figure, they will not be able to recover any funding deducted for not delivering expected growth in 2000-01 arising from their successful bids. They will also have all the funding held back for new places for 2001-02 awarded through the bidding exercises.

b. The first FTE target shows the FTEs required to recover in full any 2001-02 funding already deducted owing to under-recruitment in 2000-01. Also shown is the maximum funding that may be recovered, and the rate per FTE for any recovery of funds for recruitment above the baseline FTEs. The recovery of grant for recruitment above that first target will be at the rate per FTE and up to the maximum level specified in the funding agreement.

c. The second target shows the minimum FTEs required to avoid holdback of bid funding. Also shown is the total funding that may be held back, and the rate of holdback per FTE. Any shortfall against this second FTE target will lead to holdback of grant at this rate per FTE and up to the maximum level specified in the funding agreement.

21. Any holdback or recovery of funds will be effected in 2001-02 and consolidated into institutions' baseline funding levels for 2002-03. For the future, we will continue to set FTE targets for those institutions that are expected to deliver growth as a result of a successful bid for additional student numbers. Institutions that are awarded additional funded places will need to show an appropriate increase in total FTEs, otherwise they will be liable to holdback.

22. In some cases we have phased allocations of additional funded places over a number of years. We will review any phased allocations for 2002-03 and beyond, if institutions are still unable to deliver, after two attempts, the growth expected of them from allocations for previous years. Specifically, this means that institutions that do not meet their first FTE target for 2001-02 to recover funding for additional places awarded for 2000-01, should expect that any phased allocations for 2002-03 and beyond will be reduced in whole or part. These reductions are likely to reflect the proportion of the funding recoverable in 2001-02 that institutions fail to recover in that year.

The medical and dental CFTE

23. The Government expects the HEFCE to control student numbers in medicine and dentistry because of the exceptionally high cost of the programmes. For this reason, we will continue to set a separate target for students on quota-controlled undergraduate medical and dental courses. This is expressed as a minimum FTE, recruitment below which will lead to holdback of grant.

24. Any shortfalls against the medical and dental CFTE will be subject to holdback at an average rate based on the standard five-year medical course. This is calculated as two-fifths of the standard price for price group B, and three-fifths of the standard price for price group A, minus £1,075 fee income. The rate for 2001-02 is therefore £8,743. Any holdback will not be consolidated into institutions' baseline funding for 2002-03.

The contract range

25. Our funding method for teaching is designed to fund similar activities at similar rates across the universities and colleges we fund. To do so, we calculate a standard level of resource for each institution and compare it with the resources that the institution receives (actual HEFCE teaching grant plus an estimate of income from fees). The method is designed to ensure, for all institutions, that this 'assumed resource' comes within a tolerance band of ±5 per cent of the standard. Where institutions fall outside the band, they are expected to move within it over an agreed period. The funding agreement seeks to support this objective.

26. The funding method regulates the resource per student. Resources will vary according to the mix of students between subject, mode and level of

study. This means that we cannot ensure similar levels of resources for similar activities merely by setting a minimum number of FTEs to be taught by each institution.

27. Instead, we set a target that specifies an acceptable percentage difference between an institution's assumed and standard resource. This is known as the contract range. For many institutions, this will be the same as the tolerance band, that is, between -5 per cent and +5 per cent of the standard. However it may be extended for those institutions that are moving towards the band.

28. To monitor institutions' positions against their contract range, we will recalculate assumed and standard resource for each institution, using 2001-02 FTE data returned in our December 2001 aggregate student recruitment surveys. The funding agreement explains in detail how we calculate these resource figures, and which students are counted towards them. We express assumed resource as a percentage of standard resource. We expect this percentage difference to come within the institution's contract range.

29. Our web-site contains templates that calculate standard and assumed resource for 2001-02. These are blank forms of the individual recurrent grant tables for teaching, separately for higher education institutions and for further education colleges, and may help institutions to assess the effects of different recruitment patterns. The templates can be found at www.hefce.ac.uk, under 'Learning and teaching'.

30. In recalculating assumed resource, we will incorporate any holdback, or any recovery of funds, arising from institutions' recruitment against their FTE targets for funding conditional upon delivery of growth, or against their medical and dental CFTE. This is to ensure that we do not penalise institutions twice for a single instance of under-recruitment, and that institutions' ability to meet their contract range is not affected by the growth that we expect them to deliver to recover funding previously withheld. We will also exclude any recruitment above institutions' MaSN plus margin from our resource calculations.

Institutions with small numbers of HE students

31. We recognise that for institutions with only a small amount of funded HE provision – notably further education colleges with few HE programmes – small changes in recruitment can have a significant effect on their percentage difference from standard resource. To allow for unpredictable variations in recruitment, we will allow a further margin around their contract range for 2001-02 calculated as being equivalent to 10 FTE students (reflecting the average mix of students at the institution between price group, mode, level and course length, and the institution's own part-time load factors). This margin will apply to institutions whose total HEFCE-funded FTEs recruited in 2001-02 are greater than 10, but no more than 400. As long as institutions' percentage difference from standard resource comes within their contract range or this additional margin, then no further action will be necessary.

32. For institutions whose total HEFCE-funded FTEs are no more than 10 in 2001-02, there will be no additional margin. This is because if we allowed the margin, these institutions would always be assessed as meeting their contract range. We will, however, treat institutions with these very small levels of provision slightly differently if they are assessed as being outside their contract range for 2001-02. This is described in paragraph 35, below.

33. We incorporated directly funded FE colleges into our main funding method from 1999-2000. The funding method is necessarily designed to suit the size and circumstances of HEIs, and we are concerned to ensure that it does not create perverse incentives when applied to small student FTE volumes in FECs. This is being kept under review.

Institutions above their contract range

34. If, when we recalculate assumed and standard resource using 2001-02 FTE data, the percentage difference is above the contract range (plus any additional margin applicable for those with small numbers of HE students), institutions will be liable to holdback. This will be calculated as the variance between the percentage difference and the contract

range, multiplied by the recalculated standard resource. For example:

- an institution has a contract range between -5 and +5 per cent
- its assumed resource is found to be 6.3 per cent above the standard (the percentage difference is +6.3 per cent)
- therefore holdback equals the difference between 6.3 and 5 = 1.3 per cent of standard resource (the variance multiplied by the institution's standard resource).

35. Any such holdback will be effected in 2001-02. For institutions with more than 10 HEFCE-funded FTEs in 2001-02, the holdback will also be consolidated into their baseline funding levels for 2002-03. For institutions with no more than 10 HEFCE-funded FTEs in 2001-02, the holdback will not be consolidated into the baseline funding levels for 2002-03. This ensures that we fund institutions with very small levels of HE provision solely on the basis of the FTE levels they achieve, but give them an opportunity to recover their positions the following year where they have experienced one-off recruitment difficulties.

36. In both cases, we will not withhold grant from an institution in 2001-02 which exceeds its contract range if the reduction in funding would be less than £50,000, or 10 per cent of total funding for teaching, whichever is lower.

Institutions below their contract range

37. We will not apply holdback in 2001-02 to institutions below the contract range. We will, however, want to discuss with them why they have not met the contract range, and what action they will take to ensure they meet it in future. So long as the institution provides a credible action plan setting out how that will be done, and comes within the contract range set for the following year (2002-03), no further action will be taken. In the unlikely event that an action plan is either not provided, or not implemented, we may take appropriate action at that stage.

38. We are continuing to monitor institutions' achievements against their contract range from year to year. We wish to ensure that institutions provide adequate resources for their provision, so that the quality of the student experience is not put at risk. We therefore expect institutions to meet their contract range each year. We may introduce measures for 2002-03 which could involve financial or other penalties for institutions that come below their contract range for a third successive year (allowing for any additional margin for small institutions).

Migration trajectories

39. The funding agreement with each institution also identifies a 'migration trajectory'. This sets the provisional contract range (subject to annual review) for each year up to 2003-04. It also shows how we expect institutions, which were originally outside the ±5 per cent tolerance band when the funding method was introduced, to move to within it over an agreed period. The trajectories will only be extended in exceptional circumstances. Institutions that are currently migrating from a position below the tolerance band should bear in mind that if they come below their contract range in 2001-02, they will need to migrate even further the following year. For example:

a. An institution's assumed resource is currently 20 per cent below the standard (-20 per cent). It has a migration trajectory as follows:

Academic year	Contract range (provisional from 2002-03)
2001-02	-15% to +5%
2002-03	-10% to +5%
2003-04	-5% to +5% (the tolerance band)

b. When resource levels are recalculated based on actual recruitment in 2001-02, the assumed resource is found to be still at -20 per cent (5 per cent below the contract range) and the institution is therefore required to submit an action plan. This will need to show how it will migrate by 10 per cent to achieve the contract range of -10 per cent to +5 per cent for 2002-03.

40. Funding for migration will not be more than the amounts originally determined for each institution when the funding method was first applied, and will end as soon as the institution reaches the ±5 per cent tolerance band.

The foundation and sub-degree target

41. Institutions that have been awarded additional funded places for foundation degrees or courses below degree level for 2001-02 have been given a foundation and sub-degree target, expressed as a headcount of students on such courses. This is to ensure that any such additional places are truly additional, and thereby help to expand numbers, as planned by the Government. The foundation and sub-degree target represents minimum recruitment levels, and the funding agreement specifies which students are counted towards it and how.

42. For 2001-02 we will not hold back funding from institutions merely for coming below their foundation and sub-degree target. This is because the FTE targets for funding conditional upon delivery of growth should be sufficient to ensure institutions deliver the additional places that we have awarded. However, we will continue to monitor student numbers on foundation degrees and courses below degree level. If we find that in 2001-02 these places have not increased sufficiently, we may introduce measures that could lead to holdback of grant in 2002-03 if institutions do not meet their foundation and sub-degree target.

Moderation

43. We moderate our allocations, so that no institution receives a reduction in resource (HEFCE funding for teaching and research plus regulated tuition fee income) in 2001-02 of more than 2 per cent in real terms (0.5 per cent increase in cash terms) compared with the equivalent figure for 2000-01. We apply a minimum threshold of £50,000, below which moderation does not apply. Any reduction in core funding for 2001-02, that results from institutions exceeding their contract range, will be subject to these moderation rules, so that no institution is required to make unmanageably large short-term cuts. We will not moderate other forms of holdback.

Verification

44. Where our calculations suggest that grant should be withheld, we will notify institutions of the amount. We will give them the opportunity to verify the data used, and to tell us about any material changes in definitions or mitigating factors that may have influenced the calculated level of holdback. Changes in definitions could mean that the student data collected in 2001-02 for monitoring compliance with the funding agreement are not entirely consistent with the way the various resource and student number targets were set. Where any such definitional changes result in an increase in the calculated level of holdback, we will accept them as grounds for mitigating holdback.

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